1971 annual report

PARAGON PROPERTIES LIMITED

EIGHTH FLOOR • 1039 - 17th AVENUE SOUTH WEST • CALGARY 3, ALBERTA • TELEPHONE (403) 245-5571

report to shareholders

The past year has been one of general economic slowdown in the Canadian economy and one in which many companies have experienced losses or pronounced erosion of net profits. In Calgary, the main area of the Company's involvement to date, high vacancy rates had an unsettling effect on the rental markets and consequently the pace of new residential development.

Against this background of general downturn, it is gratifying that Paragon Properties Limited enjoyed substantial growth in many financial categories for its fiscal year ended November 30, 1971, as expressed by the following synopsis of the financial statements:

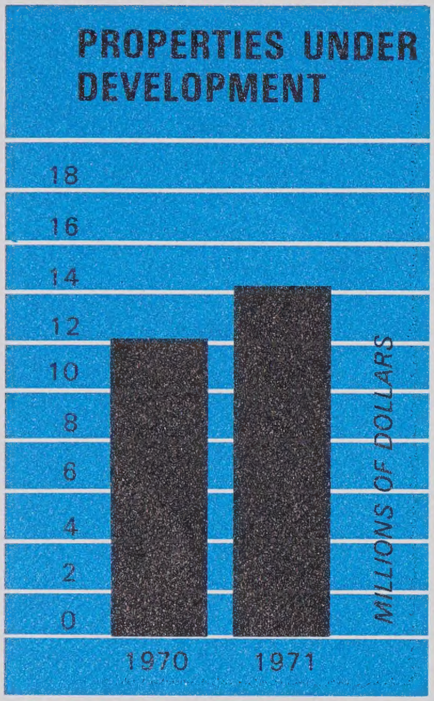
The Company has continued its established policy of selling revenue producing properties consistent with the need for a balanced portfolio of properties held for investment. This past year, we increased sales made in the ordinary course of business, largely to European investors, by 36% from $5,707,608 to $7,788,452 while our current inventory of land and properties (both under development and revenue producing) increased 6% from $18,490,403 to $19,674,447.

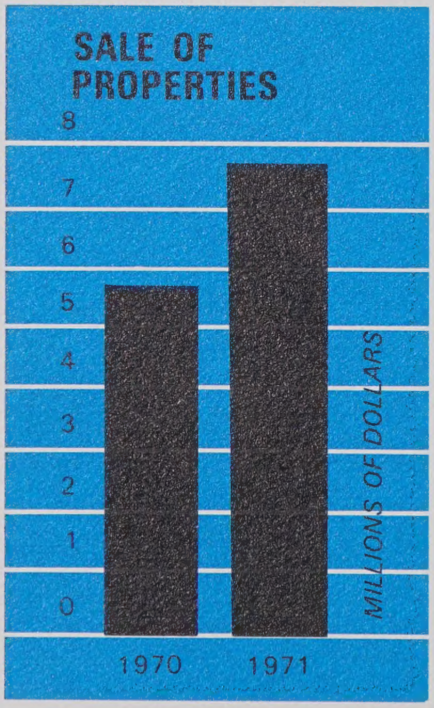
Reputation and experience underlie the repeat business conducted with former purchasers of the Company's properties and attracts new investors who are continuously seeking us out with a view to the acquisition of property or participation in joint venture development.

	1971	1970	Increase
Properties under development	$14,117,570	$12,159,145	16%
Properties managed for others	13,500,000	12,630,000	7%
Gross Income	10,955,618	6,366,109	72%
Sale of Properties	7,788,452	5,707,608	36%
Net earnings	515,224	322,909	59%
Cash flow	1,033,099	663,186	55%
Net earnings per share	54¢	34¢	20¢
Cash flow per share	1.09	70¢	39¢

This growth was accomplished concurrent with an accelerated program of diversification into a number of areas ranging from land subdivision, mobile home parks, modular condominiums, and shopping centres to government turnkey projects, house building, project management on a fee basis, hotels, and office buildings. Additionally, we made a significant entry into the populous Ontario market and further penetrations into Winnipeg and Edmonton. In British Columbia, the Company sold its properties at a profit and other development opportunities are currently being pursued.

It was with a new investor that the Company recently concluded an interim agreement to sell Place Concorde. Subject to the completion of formal documentation, it is anticipated that the sale will be closed on or about March 31st, 1972. Subsequent to closing, the Company will continue to manage the complex for at least three years.





SOCIAL HOUSING

The main thrust of the Company's activities this past year has been directed in the area of social housing. Bridgeland Place, a three million dollar high-rise public housing complex undertaken on turnkey basis for the City of Calgary, is now virtually completed. Candlewood Park, a limited dividend townhousing project of 100 family units, was completed and fully occupied a few months ago. Additionally in Calgary, the Company has recently received contracts for a public housing project containing 80 suites, and serious negotiations are now underway for a senior citizens' residence containing 154 units as well as several other programs having a total value of $5,000,000.

In Winnipeg, work is well advanced on a 373 unit high-rise senior citizens' residence and a 96 unit townhousing complex, both on turnkey basis for the Manitoba Housing and Renewal Corporation. Subject to rezoning, a contract was recently concluded with the same Corporation for a senior citizens' lodge in northwest Winnipeg containing 131 suites which is expected to commence in the Spring.

In Thunder Bay, Ontario, construction has already started on two buildings containing 180 units for occupancy by senior citizens. This project has been undertaken by the Company on turnkey contract with the Ontario Housing Corporation.

MULTI-FAMILY RESIDENTIAL

In the past year, the Company completed or started construction of 1265 apartment suites. In a practical sense, Place Concorde became fully operational and a major start was made on The Hays Farm, a comprehensively Planned Unit Development which will ultimately accommodate 532 suites.

There has been considerable improvement in the Calgary rental markets. The vacancy report from Central Mortgage and Housing Corporation effective December 31st showed an overall vacancy of 6.5% compared to 10.7% for the previous half. We expect to see a return to normal conditions in 1972 and the Company has therefore made commitments for the development of at least 860 apartments, including the second phase of The Hays Farm and a start on Hull Estates and McLaurin Village.

HOUSEBUILDING

Paragon's entry into the Calgary single family house market in Penbrooke Meadows, followed by its Dover Estates subdivision for a total of 64 single family and semi-detached homes, is now successfully concluded.

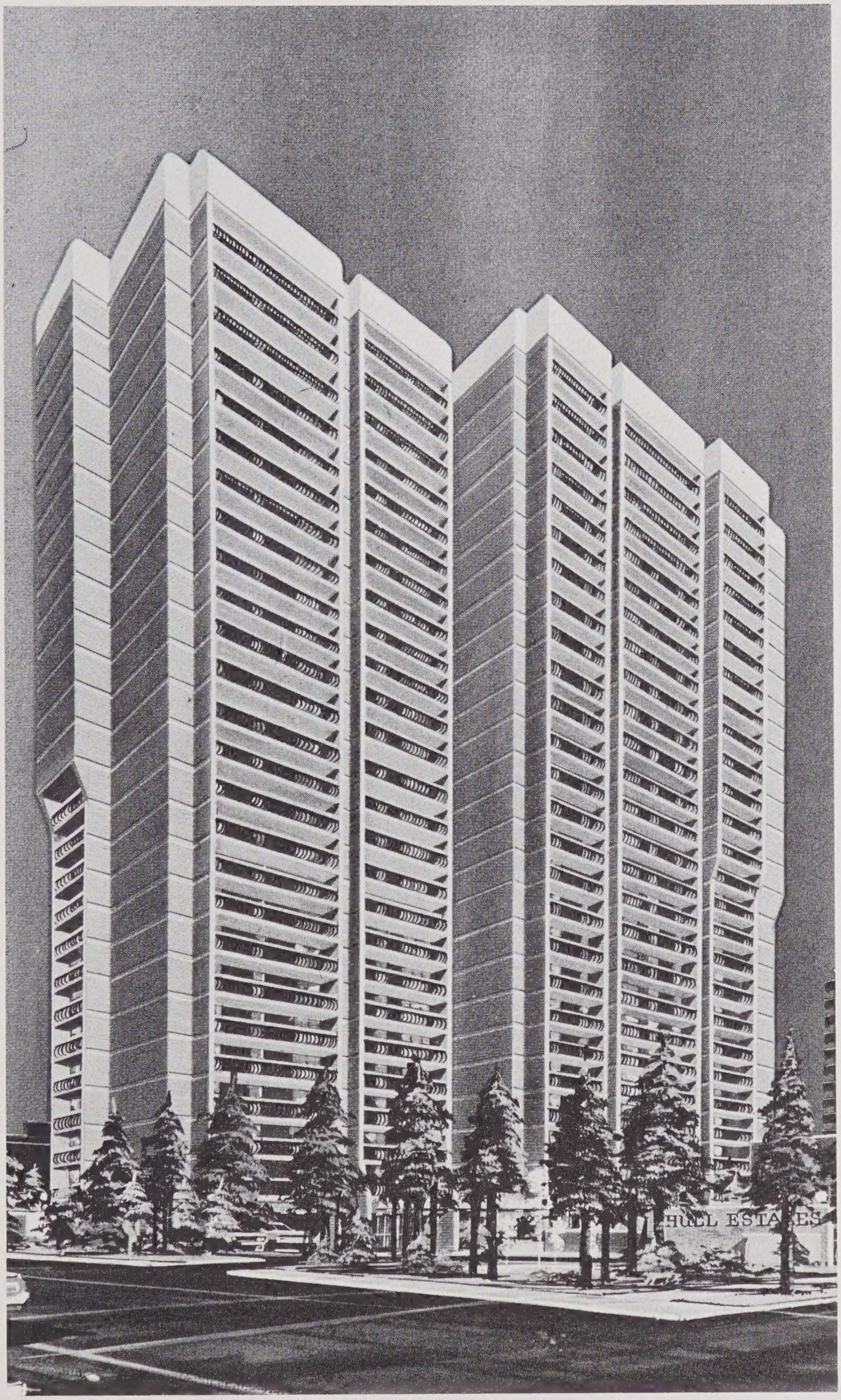
Negotiations are currently being finalized with the three levels of government for an innovative program of mobile home or modular housing on a condominium basis which would permit insured homeowner loans under the National Housing Act.

COMMERCIAL AND INDUSTRIAL

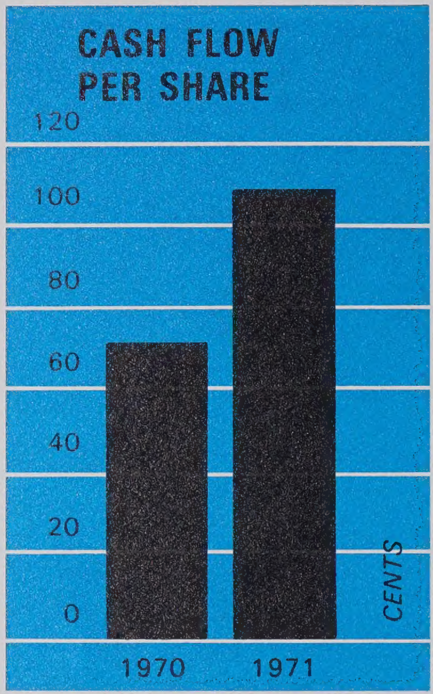
In 1971, Paragon completed and leased about 64,000 square feet of commercial space, and land was acquired for development in 1972 (either wholly for our own account or by joint venture) for a business office building, a professional building, industrial and warehousing accommodation, a hotel, a nursing home and a shopping centre.

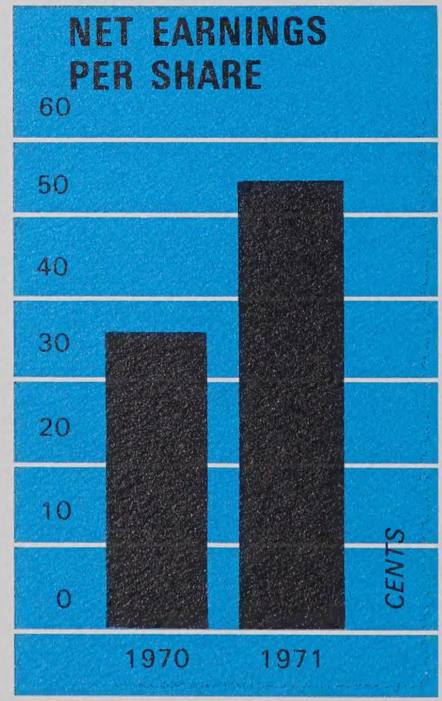
MOBILE HOME PARKS AND SALES

Paragon is recognized among the leading Canadian developers of mobile home parks, acknowledged as the fastest growing sector of the Canadian housing scene. Our current portfolio contains 450 homesites, including Chateau Estates which was completed in 1971. In Edmonton, we have concluded a joint venture agreement, wherein the company has a 50%



Early spring construction is scheduled for Hull Estates, Calgary's first truly luxury high-rise apartment and town—house complex.





interest, which would permit the phased development of 840 homesites starting in the Spring of 1972, and our wholly owned Glamorgan mobile home park in Calgary is zoned to accommodate 170 sites.

Our participation with Neonex International Limited for the marketing of mobile homes is proceeding satisfactorily, and though just recently operational, an acceptable level of earnings has already been achieved.

CONSULTING AND CONTRACT MANAGEMENT

This program was instituted in 1971 and has already made a significant contribution to the Company's earnings for the fiscal year. The program offers owners and investors a complete development service from the initial stages of land assembly to financing and project management.

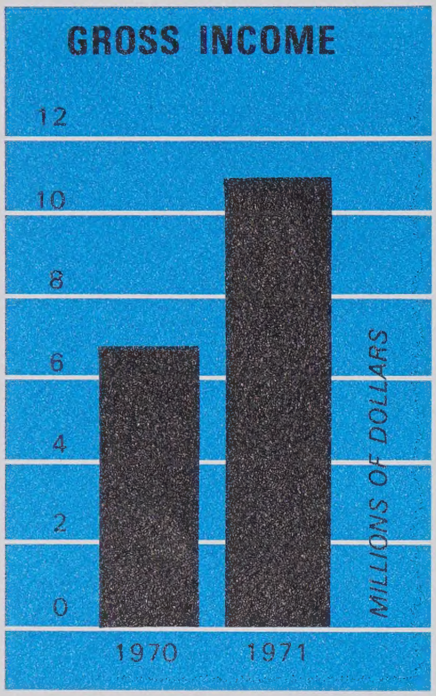
Three projects for a total property value of $2,530,000 were started in 1971 and substantially completed by year end; a major hotel development is already committed for 1972 while retainers are currently being negotiated for other projects ranging in use from business and professional to shopping centres and apartments.

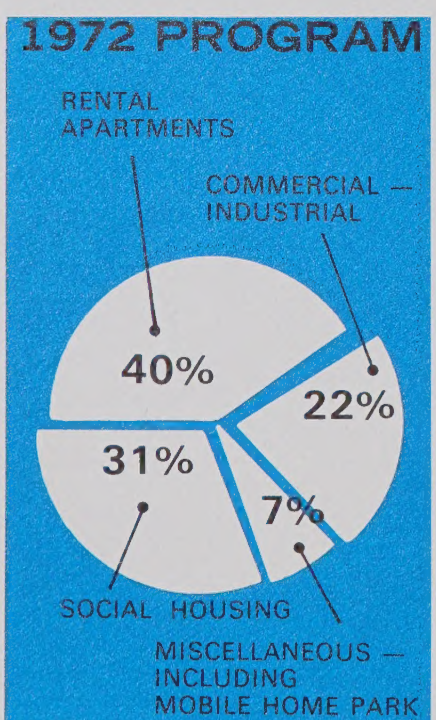
PROPERTY MANAGEMENT

The importance of this function to the lender or to the financial participant in a joint venture or partnership is self-evident. Further, the availability of competent property management is often a strong inducement to an investor seeking to purchase one of the Company's projects. Without this service, Paragon's growing success in selling revenue producing properties, especially to foreign investors, would be seriously curtailed.

A determined effort was therefore made this past year to reorganize staff functions and responsibilities, to institute new types of marketing

Company President Charles G. Smith, Q.C. presented The Hon. C. Campbell McLaurin, Q.C., LLD. with a gavel upon his appointment as Chairman of the Board in February of this year. Directors Robert K. McConnell, Senator Harry Hays, G. Lyall Roper and Executive Vice-President Norman Steinberg participated in the brief ceremony. The Hon. E. Davie Fulton, P.C., Q.C., LLD. was absent.





programs, to computerize our accounting and reporting functions and to widen the scope of services to tenants.

At year end, Paragon Property Management administered about 2,500 residential units and 116,000 square feet of commercial accommodation for its own account, for joint ventures and for others.

CONSTRUCTION

Strict quality control, lower per unit costs and a proven ability to meet completion dates are some of the advantages which Paragon gains from the operation of its own construction division.

EXECUTIVE CHANGES

Mr. Frank J. Smith has resigned as Director and Vice-President of the Company. The Board and Management extend their gratitude to Mr. Smith for his exemplary service. The Honourable C. Campbell McLaurin, Q.C., LL.D., assumes the position of Chairman of the Board in which capacity Paragon should receive even greater benefit from his years of distinguished service to the community and to the Company. We welcome Mr. J. Brian Renton, P.Eng., on his appointment as Vice-President, Construction and Development; Mr. Lyle J. Wilson, C.A., on his appointment as Secretary-Treasurer, and Mr. Jack Belkin as General Manager, Paragon Property Management.

OBJECTIVES!

The corporate plan which directed the Company's activities last year is an ambitious one that can be succinctly stated — diversification to cover the total spectrum of the housing market and expanding involvement into any area of real estate development which is economically viable. We have made major strides toward this objective and will continue to do so in the year ahead. In the near future, coincident with the closing of several major sales, our working capital will be at a historically high level. This should permit our diversification into the heavily populated markets of Eastern Canada by the establishment of permanent operational bases in Toronto and Montreal while continuing to expand our western operations with the opening of offices in Edmonton and Winnipeg. Although we are convinced that the opportunities for growth are manifold in Western Canada, we are equally convinced that our potential cannot be realized without a broadened operational experience and a national posture.

But the true measurement of growth cannot be equated in the impersonal statistics of square feet or number of buildings. However effective our planning concept may have proven to be, it is the implementation by the entire Paragon staff which has transferred it into a working reality. Nor can our objectives, and indeed the earnings contained in this Annual Report, be accomplished without the support of our shareholders and the investment community.

We are grateful for your most valued contribution to a highly successful year and offer a confident prediction that this current year will be one of continued growth.

On behalf of the Board of Directors

Charles G. Smith

Charles G. Smith, Q.C.
President

Norman Steinberg

Norman Steinberg
Executive Vice-President

Calgary, Alberta
March 7, 1972

To profile Paragon Properties Limited more usefully and to indicate the direction in which the Company is headed, a series of questions was put to senior officers and management. The Honourable C. Campbell McLaurin, Q.C., LL.D., Chairman of the Board; Charles G. Smith, Q.C., President; Norman Steinberg, Executive Vice-President; J. Brian Renton, P.Eng., Vice-President, Construction and Development; Lyle J. Wilson, C.A., Secretary-Treasurer, and Jack Belkin, General Manager, Paragon Property Management, participated in the following question and answer

WHAT IS PARAGON'S BASIC BUSINESS?

We are developers of revenue producing properties, thus far oriented mainly to multi-family rental markets. We are frequently described as the largest apartment developer in Western Canada and the statistics back up this claim. However, during the past two years, we have engaged in a vigorous program of diversification which produced at least an entry, and in some cases, a dramatic involvement in just about every sector of real estate development.

WHERE DOES PARAGON FIT INTO THE REAL ESTATE INDUSTRY?

In our ability to achieve the concept of "total packaging". We are one of the few real estate companies with the demonstrated ability to originate, construct and manage its own projects; in other words, to handle every aspect of a real estate development. We choose and assemble our own sites, arrange our own financing, supervise architects and engineers whom we have selected, do our own construction, handle our own renting, and manage our completed buildings. We have operated this way for about nine years, and we have accumulated a reservoir of expertise and experience.

Being able to operate this way gives us a big advantage because it eliminates many uncertainties. Land cost, the availability of financing, construction costs, the rental market — these and other factors can change dramatically between the time a project is planned and the time it is completed. But because we control all aspects of a project, we can determine with a great deal of certainty just what our total project

WHAT IS YOUR BASE OF OPERATION?

Chiefly Calgary — because it was in this fastest growing Canadian city that Paragon had its start. However, here again, we are committed to diversification — this time on a geographic level — and construction activity has either been concluded or is now underway in British Columbia, Manitoba and Ontario. Building commitments have been arranged in Edmonton and development proposals are under serious consideration in Northern Alberta and Quebec. Subsequent to year end, the Company opened regional offices in Edmonton, Winnipeg, Toronto and Montreal.

WHY DO YOU STATE THAT CASH FLOW — AND NOT NET INCOME — IS THE TRUE MEASURE OF YOUR BUSINESS SUCCESS?

The obvious measure of success in the real estate industry is how much money a company generates in a year — money that is available for investment, new projects, payment of dividends, or any other corporate purpose. In Paragon's case, as with any public real estate company, the available cash is substantially greater than what is reported as net income. For fiscal 1971, net income amounted to $515,224 or 54¢ per share but cash flow, which is the real yardstick, was $1,033,099 or $1.09 per share.

WHAT ARE THE NON-CASH EXPENSES MAKING UP CASH FLOW?

These are items that are considered expenses for financial reporting purposes but are not actual cash outlays during the period for which they are reported. Paragon's cash flow includes three major non-cash expense items: real estate depreciation, amortization of deferred charges, and deferred taxes. As expenses, these items serve to lower taxable income. But because they are non-cash charges, they don't reduce the money in our pocket.

AS AN INDICATION OF YOUR RESOURCES, CAN YOU ESTIMATE PARAGON'S REAL NET WORTH?

In any business, of course, it is axiomatic that the real net worth of a company cannot be expressed on its balance sheet. For example, what value do you attach to the experience of a management team, or the potential for profit from substantial land inventory or developed properties.

Real estate financial statements usually understate net assets by a substantial margin because the balance sheet shows properties carried on the books at their original cost less depreciation. No adjustment is made for the impact of inflation or the increased market value resulting from a re-zoning to a higher land use or the countless hours and experience involved in the development process before a shovel is placed in the ground. Also not shown are properties which have been sold and leased back, even though these are available income-producing properties with favorable long-term leases for as long as ninety-nine years.

Based on management's appraisals, we estimate that the true asset value of our Company at November 30th, 1971, was $8.12 a share, which compares with a book figure shown on the balance sheet of $2.22 a share.

Typical of the buildings sold to local and foreign investors are Richmond Estates (top) in metropolitan Vancouver and the Marlhurst in Calgary (bottom).

In calculating what we call the real net worth of the company, we start with the shareholders' equity as shown on the Consolidated Balance Sheet. We then add the excess of management's appraisal of the present market value of the completed properties and of the properties under construction over their recorded book value, and add back the liability for deferred taxes as shown on the Balance Sheet. No provision is made for deferred taxes arising out of appraisal increments.

The total is then divided by the number of shares outstanding to arrive at the asset value per share.

WON'T THE AMOUNT DEDUCTED FOR DEPRECIATION OF THE BUILDING EVENTUALLY BE REQUIRED TO REPLACE IT?

Only in theory. While a building may physically deteriorate to some extent, it normally does not lose its economic value. In fact, sound, well-located buildings which are maintained at high standards have historically appreciated in value. Inflationary forces, of course, are a factor in this process. It is one reason why cash flow — of which depreciation is a major element — is different for a real estate company. Industrial companies that depreciate their machinery do so with knowledge that the machinery will actually wear out or become obsolete and will have to be replaced in a relatively short time. These companies have to consider depreciation as a real cost of operating their business. But in real estate, it can be considered as part of the cash return to the owners of the property, which can be used to create new real estate assets that generate additional cash flow.

HOW HAVE YOU BEEN ABLE TO COPE WITH THE PROBLEM OF TIGHT MONEY?

By using our own resources, occassionally supplemented by the resources of partners or joint venturers — as in the case of Place Concorde and Highland Estates. Additionally, our history of success and general expertise have facilitated financing whenever required from the general market.

ARE YOU SATISFIED WITH YOUR ACCESS TO THE MONEY MARKETS?

The volume and the varied nature of our work as well as the numerous joint venture arrangements and outright sales which we have concluded, indicate that we use financial leverage to its maximum and have the widest possible sources of financing available to us.

We deal in the main with one of Canada's largest mortgage lenders because we have established a close working relationship with them over the years; but there are many other Canadian and American lenders with whom we have dealt on a satisfactory basis. Increasingly, we are being approached by new money sources emanating from the United States and Europe.

We believe that the most important element in real estate finance is the creativity and vision of the developer and his supporting team. The application of good environmental planning and the design of high-quality complexes of considerable size are the ones which insurance companies, pension funds, trust companies, government housing authorities, and all other lending institutions will accept for the highest loan amounts and the lowest possible rates because they know that these properties will keep or increase their values for years ahead.

EXPLAIN THE ACCOUNTING CHANGES INSTITUTED IN FISCAL 1971.

There are three accounting policy changes which were incorporated into this year's financial statements. These changes were adopted mainly as a result of the increased scope of Paragon's operations during the year.

Prior to this year, Paragon apartment projects were of the small to medium size, from 30 - 140 units. During that time, a building was considered fully developed when any one of the following conditions was present:

a) The building was 80% occupied, or
b) 98% of the project budget had been spent, or
c) The last mortgage draw had been received.

When Paragon entered the larger apartment field, the need for change in accounting policies was obvious. Even the most conservative financial analyst would agree that to charge earnings with building operating costs incurred during the rent-up period of a 600 unit apartment complex such as our Place Concorde development would be misleading. Accordingly, the Company has adopted the policy that operating revenues and costs, including interest and taxes, should be capitalized until a building is 80% occupied, with a maximum time limit based on the size of the property as follows:

a) under 250 suites, one year from the date of first occupancy;
b) over 250 suites, one year plus one month for every 20 additional suites.

This is in keeping with the recommendations of the Urban Development Institute and the Housing and Urban Development Association of Canada.

For the same basic reasons, leasing costs have also been dealt with in a different manner this year. Those costs that relate to properties in the rent-up stage are capitalized until the property reaches "on stream" classification.

The third change involves the method adopted this year for establishing the provision for depreciation. Depreciation on revenue-producing properties has been calculated using the sinking fund method. A fifty year

Place Concorde, the company's major project to date in Calgary, dominates the Calgary skyline. Containing 596 suites in twin 36 storey towers linked by commercial and tenant services, Place Concorde is often described as a "city within a city".

term at an annual interest rate of 5% was the criteria adopted as the basis for the computation. We share the opinion of other major land developers that this method is the most appropriate, given the circumstances that the cost of a building is met largely from borrowings.

The Canadian Institute of Chartered Accountants accepts this method as sound accounting practice. The aggregate of depreciation and interest is the amount that has to be recovered over the building's life and therefore should be relatively constant throughout that period. The sinking fund method is the most practical way to achieve this objective.

These changes have been made in large measure to present our financial statements on a basis comparable with others in the real estate industry.

IS YOUR PROGRAM OF SELLING REVENUE PRODUCING PROPERTY GOING TO BE CURTAILED BY THE NEW TAX ACT?

Not to any appreciable extent. Most of our sales are concluded with offshore institutional funds to whom tax shelter is of little, if any, benefit. We shall continue to make sales to local investors who are seeking the tax shelters available from depreciable real estate.

IS IT TRUE THAT EVERYTHING YOU BUILD IS FOR SALE?

The debate on the merits of "hold" versus "sell" will always prevail among real estate companies with differing corporate objectives. In the final analysis, a balance must be struck. The factors affecting the decision as to whether we should sell or hold are myriad, not the least of which is the Company's position with respect to current income taxes and its cash requirements. We never know at the time a project is commenced, and even after construction is well underway, whether the building will be retained for long-term revenue production or whether it will be sold as soon as it is fully leased up and the cash flow established.

In any event, much of our income is generated from other sources — such as government turnkey work and project management. We expect to see improved earnings from these traditional sources and new opportunities for earnings opening up in the near future.

DOESN'T PARAGON MAKE ITS MAJOR PROFIT SELLING BUILDINGS?

Historically that was true and in a lesser way it remains true. As long as there was good availability of land in Calgary, and we were then restricting our operations to Calgary, the best way to gain the fastest growth was by developing property for inventory and sale, and then by investing the earnings in new projects.

Our views are now changing, however, because our base of operations has been extended to other cities and the same conditions of land availability do not prevail. We are also constantly developing larger projects where maximum profit is obtained upon maturity of the complex. In addition, certain financing techniques and joint venture arrangements permit us to enjoy a substantial equity position with little, if any, capital outlay.

IN THE LIGHT OF YOUR INVOLVEMENT WITH MAJOR PROJECTS, WHY DO YOU CONTINUE TO CONSTRUCT THE SMALL APARTMENT BUILDINGS?

Our first apartment building in 1964 consisted of 8 suites and we gained our initial reputation and experience on the walk-up. In contrast, Place Concorde, which was just completed, contains 600 suites. We have a number of developments presently underway at the 550-suite level and small apartments ranging in size from 16 to 48 suites. We build for inventory, much the same way as the house-builder constructs houses for sale. In most cases, we sell the smaller buildings just as fast as we build them.

For Paragon, the construction and sale of these buildings have been, and hopefully will continue to be, a profitable activity. Small apartment blocks will always serve a need both for the tenant seeking lower-priced accommodation and for the investor with limited financial and managerial abilities.

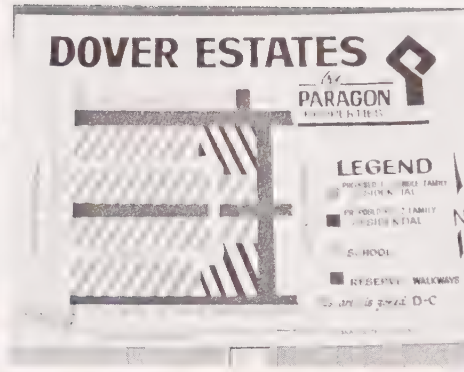
IS THE BASIC NATURE OF THE REAL ESTATE BUSINESS STILL CONSIDERED TO BE SPECULATIVE?

The degree of speculation depends on the type of development and the expertise of the developer. For instance, a building fully rented under long-term *Triple A* leases is not speculative; a vacant piece of land for future development is.

We believe the creation of building projects correctly executed and leased to sound tenants is certainly not speculative. We have shown our ability to successfully complete most kinds of projects, and the question of whether they can be leased is the same type of question that faces an automobile maker who needs to sell a specific number of automobiles in a given period. It involves a business judgment based on research and experience. But if the real estate business is to be regarded as speculative at all, then Paragon's modus operandi reduces the hazards. By now, we have clearly demonstrated our ability to turn fixed assets into cash through sales of property at reasonable margins of profit during good times or bad times.

HOW HAVE RECENT DIFFICULT TIMES AFFECTED THE REAL ESTATE INDUSTRY IN GENERAL, AND PARAGON IN PARTICULAR?

The real estate industry generally has been hurt by the economic slowdown,



Warehousing (top left), home sales (top right) and Consulting and Contract Management (illustrated centre by the addition to Calgary s Medical Centre nearing completion),have added a new dimension to Paragon's traditional business of developing and selling apartment buildings such as Forest Hills (bottom).

by large cost increases and by the relative scarcity of financing, or ''tight money''. Renting has slowed, financing has been hard to get, and projects have required even larger amounts of cash equity.

Paragon has had to deal with these problems just as everybody else has. Where we benefit is in our flexibility and therefore our ability to cope with the changing conditions. We know at all times what cash the project needs and we can make arrangements to get it. We can anticipate problems and solve them as they arise. Further, our experience and our track record make our projects desirable to financial institutions with funds to lend, so we are high on their lists of preferred borrowers.

A good case in point is our soon to be started Hull Estates project. Despite the high level of vacancy rates in Calgary this past year, Paragon has just concluded a financing package for approximately $5.4 million which, for rate and terms, represents one of the most favourable achieved in Canada.

THERE HAS BEEN CONSIDERABLE REFERENCE THIS PAST YEAR TO AN OVER SUPPLY OF APARTMENT ACCOMMODATION IN THE CALGARY MARKET. WHAT IS YOUR EVALUATION?

Calgary has a great deal going for it and it was only a question of time before the giant developers discovered ''the land of milk and honey''. This discovery, coupled with an easing of the money supply in the fall of 1970, contributed to the city's currently overbuilt state.

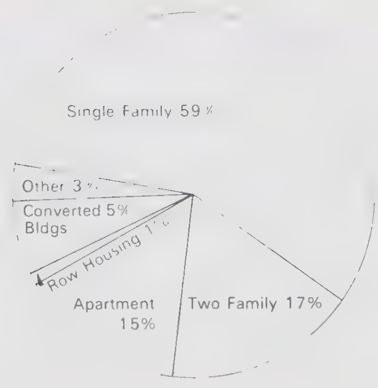
There is no question that Paragon has operated in a much more competitive market. However, we refused to cut rents, engage in give-away programs, or travel the ''gimmick'' route. Instead, we augmented our marketing and management organizations and concentrated on improving service to tenants.

Our slogan ''Paragon is for People'' became a living reality as we instituted more programs designed to prove that our concern for the welfare and comfort of tenants extends beyond the signing of a lease. This costly program explains why rental expenses exceed rental income this year. But we are convinced that this condition will be more than offset by the lasting good will which we enjoy with the renting community by a reduction of tenant turnover and by an accelerated rental rate for new developments just coming on stream.

For example, our Lakeview Mews project consisting of 122 suites, though not yet completed, is rapidly approaching full occupancy, and The Hays Farm, which is still under construction, is being pre-leased at a fast pace. We are establishing Paragon in the public mind as the name to call for housing of any type, in any location, or in any price range.

As for the current picture in Calgary, the high vacancy rates resulted in a general contraction in multi-family residential building activity and there are now strong indications that the over-supply should be largely absorbed before year end, at which time we can expect rents to catch up quickly with inflationary forces. The vacancy report from Central Mortgage and Housing Corporation of December 31, 1971 underlines this point since it shows a 6.5% rate which, although still much higher than normal, is nevertheless

DWELLING UNITS BY TYPE - 1968



Source City of Calgary Census 15th January 1968 includes vacancies and dwellings under construction

NEW DWELLINGS REQUIRED TO 1986 FOR THE ENTIRE CITY, BY TYPE OF DWELLING UNIT

(Percentage Figures Indicate Composition of Housing Stock During Each Period)

Type	1967 - 1972		1973 - 1978		1979 - 1986		All Periods to 1986	
	Comp.	Number	Comp.	Number	Comp.	Number	Composition	Number
Single Family	50%	18,500	45%	19,350	40%	27,600	44%	65,450
Duplex	10%	3,700	10%	4,300	10%	6,900	10%	14,900
Town and Row Housing	15%	5,550	20%	8,600	25%	17,250	21%	31,400
Low Density Apartments	10%	3,700	10%	4,300	10%	6,900	10%	14,900
High Density Apartments	15%	5,550	15%	6,450	15%	10,350	15%	22,350
TOTAL	100%	37,000	100%	43,000	100%	69,000	100%	149,000

4% Vacancy rate assumed. The above figures do not distinguish between temporary, prefabricated or permanent accommodation for each dwelling type

Source *Calgary Plan*

While Calgary's rental markets are softer than most Canadian cities, Paragon has experienced more than satisfactory rentals at two new projects, Lakeview Mews (above) and the first phase of Hays Farm (right). Village Green (top right), is typical of Paragon's "environmental type" garden apartments.

considerably reduced from the 10.7% rate in the previous half.

For the long term, there is no question of a strong continuing need for new housing units as evidenced by the graph reproduced from the *Calgary Plan* which was prepared by the City as a blueprint for growth in this century. It projects the population growth and the number of dwelling units required through to 1978.

WHY DO YOU ACT AS YOUR OWN GENERAL CONTRACTOR?

We handle our own construction for a number of reasons. We retain better control over the quality and cost of the work. We also maintain maximum flexibility during the progress of the work so that we can make changes in the vital design and finishing elements to satisfy the changing requirements of the market and the proliferation of new products and ideas. In addition, the construction work generates a secondary, but nevertheless vital, source of income which accrues to us as our own general contractor. Finally, we feel that Paragon possesses more expertise, at least in the area of apartment construction, than most general contractors in Canada.

Effectively, Paragon wears three hats — as developer, as contractor, and as property manager. There is a profit to be made in each capacity and we see no reason why we should abandon any one of these profit centres. By eliminating the middle man, we are able to put properties on the market at more attractive prices to investors or tenants.

WHY DID PARAGON BECOME INVOLVED IN HOUSEBUILDING?

We seek to cover the entire real estate market and particularly the shelter industry. It is therefore hard to ignore a sector of the industry which still commands more than fifty percent of the housing market. Further, the Paragon name is strongly identified with housing and is well able to serve double duty.

HOW IMPORTANT IS YOUR NEW DIVISION "CONSULTING AND CONTRACT MANAGEMENT"?

Our consulting role is very important to our clients as it involves analyzing costs, alternative designs, working with architects and being involved in all decision-making areas in order to complete a feasible plan. That's highly important because with our consulting assistance a project can be started in about a third less time than is customary. There is also less chance for false starts resulting from errors in basic assumptions which sometimes go unnoticed until project development is too far advanced.

It's gratifying to us that in only one year of operation, this function has generated earnings of about $200,000 and already we have substantial commitments for 1972.

In very few cases do we handle the general construction. Hence there is limited investment and financial responsibility since our earnings are generated mainly on a fee basis.

ARE THERE ANY OTHER OPPORTUNITIES FOR PARAGON TO TAKE ADVANTAGE OF ITS DEVELOPMENT AND CONSTRUCTION EXPERTISE?

Indeed, that is why last year we started "Consulting and Contract Management". It offers an investor complete development service from the initial stages of land assembly to financing and project management. The Paragon development, construction and property management organization exists to serve the entire integrated picture, and although not actively seeking general contract work, the Company will occasionally utilize its expertise and purchasing power to acquire outside commercial, residential and industrial jobs. These are always arranged on a negotiated rather than on a bid basis and enable us to maintain peak levels of production in our work schedules.

It is important to recognize that our widening acceptance in this area generates many opportunities for equity participation. For example, we have just concluded a joint venture agreement to develop a sizeable hotel in northwest Calgary wherein the Company will own fifty percent of the project. This came about by reason of an initial approach by the owners of the land to retain us for our development expertise and for the assistance that we could extend in dealing with the complexities of getting the project off the ground. There are numerous other situations, including several current ones in Edmonton, which arose in precisely this way.

WHAT ARE YOUR OTHER INTENTIONS FOR DEVELOPING NEW PROFIT CENTRES?

We have entered a number of new and exciting fields which all have excellent profit potential. For example, land subdivision and development, mobile home sales, modular housing, Planned Unit Developments, office buildings, shopping centres, industrial warehousing, luxury-oriented apartments, professional buildings, and social housing encompassing a wide variety of programs. In every one of these fields, Paragon has been connected either as sole developer or in concert with another who serves as the specialist from whom we can borrow knowledge and experience.

In 1972, and in the ensuing years, we hope to make greater inroads and broaden our experience in each of these areas. We wouldn't even overlook nursing homes because of their growing potential for profit. In fact, we just optioned a 150 bed nursing home site.

Paragon has learned that each experience and each involvement leads to another of the same or similar type.

Cameron House (below) is typical of the small apartments that Paragon has successfully constructed and sold in large numbers.

Highland Estates (left) represents Paragon's first entry into the townhouse field two years ago.

Viewing the Hull Estates model (bottom) are Lyle J. Wilson, secretary-treasurer; Jack Belkin, general manager, Paragon Property Management; Charles G. Smith, President; Norman Steinberg, Executive vice-president,and J. Brian Renton, vice-president.

HOW DOES THE DEVELOPMENT PROCESS WORK?

Books could be written on this subject, and indeed many have been. It might be best to answer this question by the example of our Hull Estates luxury high-rise and townhouse complex soon to be undertaken.

Starting with the land, which was one of Calgary's choicest sites and an historic landmark surrounded by stately residences near the downtown core, we first made an approach to the charitable Foundation which owned the property. We then had numerous discussions with officials of the Foundation who, over the years, had declined numerous offers from major developers. We were able to convince the Foundation that the site would not be destroyed by our development but, rather, would be enhanced by it. The price of the land was of secondary interest to the vendor. In time we were able to satisfy their objectives and the property was acquired.

However, despite the relatively low cost factor, the project could not be viable unless we were able to obtain a higher land use. Consequently, we engaged a leading international site planner and architect to prepare a submission for re-zoning. This consultant made eight trips to Calgary and worked in close harmony with us over a period of nine months before we were satisfied with our presentation. It was then submitted to the City Planning Department for circulation.

In the ensuing weeks, we met with representatives of Planning, Traffic, Engineering, Parks and Recreation, and the fire and school authorities. As a result, a number of modifications to the plans were made. During the course of these meetings, agreements were reached with the Land Department for an exchange of land which required us to surrender a portion of our site for a section of public roadway. Eventually, the application was advanced to the Planning Commission, required as prerequisite to consideration by City Council. We appeared before the Commission to explain our presentation in detail and obtained its endorsation. Subsequently, we appeared before Council itself where re-zoning was granted by a unanimous vote.

The next step was to apply to Central Mortgage and Housing Corporation to insure a loan under the National Housing Act — a loan which would be the highest on a per unit basis in Western Canada. Once again, there were months of discussion and negotiation with C.M.H.C. planners, architects, engineers, landscape architects, and appraisers until the preliminary drawings were finally accepted and an advice of loan amount issued.

For this purpose, we had to prepare extensive feasibility and economic studies, including pro forma statements of income and expense, and as well we obtained three separate appraisals from an independent fee appraiser, each appraisal dealing with a different aspect of the proposed development.

With the passage of all of this time, market conditions in Calgary altered drastically, and the plan which had been initially prepared with such laborious effort was abandoned and another architect retained to start anew. Once again, we launched upon the time consuming task of obtaining all the municipal and C.M.H.C. approvals and after six months, we were finally in a position to approach a lending institution for an N.H.A. insured loan.

All the planning delays proved to be a blessing in disguise because at this point the supply of long-term funds had eased considerably, and we enjoyed a more favourable interest rate. Paragon therefore had a wide choice of lenders who, despite the depressed rental market in Calgary, were enthused about the potential of this project. The result, following a number of trips to the Eastern money markets, is a mortgage loan which breaks new ground in many vital sectors.

By last December, there remained only a question of settling the final arrangement with the architect, the retention of the many other consultants involved with the planning, and the start of working drawings. At that point, four Paragon officials together with six consultants constituted a task force which meets regularly every Friday afternoon to co-ordinate the design elements. Having regard to the size of the project and to the fact that we would be introducing a new concept in life style catering to the discriminating needs of an affluent and sophisticated adult market, members of the task force visited and inspected the best examples of comparable developments in the United States and Canada to determine final finishing details of the building and the comprehensive amenities and programs which will be offered in it.

Following our return to Calgary, a manager of Hull Estates was appointed and a total marketing concept sketched out so that a determined pre-leasing campaign could be launched.

Such is the story of Hull Estates to this date, and it is significant that so much work has been done before a shovel has been placed in the ground.

YOU HAVE SAID THAT THE MAIN THRUST OF YOUR ACTIVITIES THIS PAST YEAR WAS IN THE DIRECTION OF SOCIAL HOUSING. WHY WAS THAT SO?

Perhaps this question can be answered by quoting from an address which our president delivered to the annual convention of the Alberta Real Estate Association last April:

Always a leader in social housing, Paragon's involvement in this field is illustrated on this page and on page 21.

Candlewood Park (top) is a Calgary development built under the limited dividend provisions of the National Housing Act, while the Senior Citizens' lodge (centre) and high-rise residence (bottom) are projects developed on turnkey basis in Winnipeg for the Manitoba Housing and Renewal Corporation.

On Page 21, the Senior Citizens' residence in Thunder Bay (top) is proceeding on schedule and represents a significant entry into the Ontario market. Bridgeland Place (left centre) is a completed Calgary turnkey project while the Senior Citizens residence and lodge shown (right centre) and (bottom) are proposed for Calgary this Spring.

"Although in itself new to the housing scene, government assisted housing programs, sometimes known as social housing, promise to be for the first time one of the most exciting and expansive segments of the total shelter industry in this decade.

"All too often in the past, social housing has suffered a poor image, and public housing projects were often seen as high density and low quality ghettos. Today, both the concept and the image are rapidly changing. Social housing can now be defined to include a wide variety of categories ranging from turnkey projects for government housing authorities and limited dividend programs under the National Housing Act, to senior citizens and student accommodation, innovative or experimental housing, and even mobile home park development.

"The key to success in this field will lie in the blending of the skills and resources of the private developer and of government at all levels to produce housing of high quality and moderate cost tailored to the needs of a wide variety of living patterns.

"There is no doubt that government assisted housing programs are not a stop-gap measure or a temporary solution to a short term problem. Like unemployment insurance or medicare, public housing will become an integral part of the social fabric. It is a fact of life that is here to stay."

It is interesting to note that the *Calgary Plan* is even more specific on this subject. It says: "While the supply of most traditional housing is not the city's direct responsibility, public and limited dividend housing remain the only existing outlets of supply of adequate housing for low income groups . . . the cities should continue to actively seek funds from other governments for new public housing units and accommodation for the elderly."

There is a profit to be made for the developer who takes the time and effort to know the regulations thoroughly and who is willing to exercise the high standards and the personal integrity needed to gain the confidence of his local C.M.H.C. office and government housing authorities. In many ways it is a specialty business and must be treated as such.

We are confident that Paragon will enjoy acceptance by any housing authority in Canada.

WHY IS PARAGON INCREASING ITS INVOLVEMENT IN THE MOBILE HOME SECTOR?

To quote from our president's address to the Real Estate Institute of Canada:

"It is becoming increasingly difficult for builders and developers to construct a single family house of $15,000 because of the skyrocketing cost of land, material and labour. In the United States, therefore, one-half of the single family homes being built today are moveable and there are now more than 25,000 mobile home communities across the U.S. The trend is growing rapidly in Canada too. One-fifth of all new homes sold here in the first nine months of 1971 were towed to their sites by a tractor."

Thus far, mobile home parks typically have produced a good return on investment, and of equal importance — largely because of relatively minor land improvements — the parks represent an excellent interim use of land pending their development to a higher usage.

The new mobile home parks, such as Paragon's Chateau Estates which has just been completed, offer all the modern amenities and represent a dramatic change from the trailer courts of yesteryear. Residents are no longer satisfied with barren parks, crowded narrow streets and a location next to a foundry or freight yards. Today, new concepts in land planning and design are being utilized so that, as in the case of Chateau Estates, they can be integrated with the surrounding community.

Looking to the future, modular housing which utilizes many techniques developed by the mobile home industry, will continue to be a growing factor and satisfy the demand for low-cost housing. The transition from mobile homes to modular housing is an easy and natural one.

Paragon is even now making this transition — perhaps for the first time in Canada — by way of an exciting and innovative program presently being structured with the cooperation of senior officials of the three levels of government. We will be developing a sizeable mobile home subdivision which will qualify for homeowner mortgage loans under the National Housing Act. It will be complete with internal roads, a club house and other recreational facilities as well as a community organization under condominium legislation which may shortly be amended by the Legislature of Alberta in order to accommodate this new form of land use. Since the housing will be factory produced and since for the first time N.H.A. insured financing at low rates with extended amortizations will be made available to these home purchasers, we may be able to offer the best housing value in the country at the lowest carrying charges.

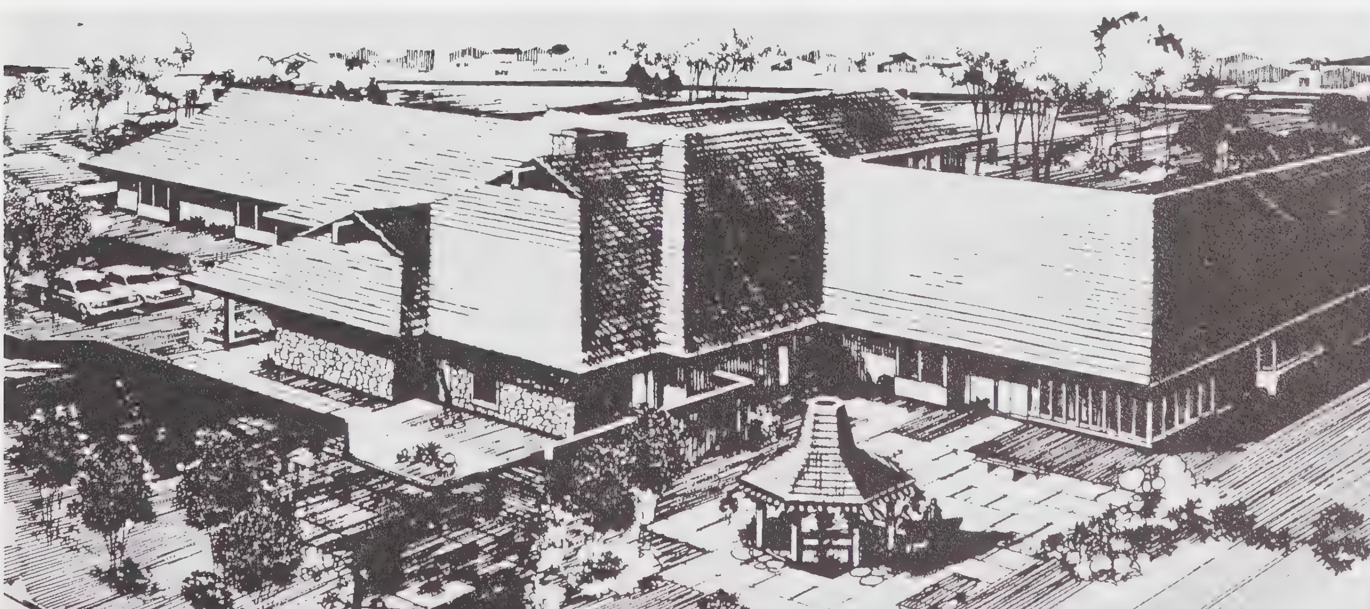
Mobile and modular housing has now firmly gained social and political acceptance in Western Canada. To emphasize this point, the *Calgary Plan* says: "Mobile homes are now being offered as permanent accommodation in Calgary, and the present housing shortage is encouraging the development of mobile home parks as permanent residential accommodation."

However, considerable pioneering remains to be done in Eastern Canada before municipal councils will allow these parks. With the help of the

Senior Citizens residence, Thunder Bay

Bridgeland Place, public housing, Calgary

Senior Citizens residence (proposed), Calgary



Senior Citizens lodge (proposed), Calgary

industry and the senior governments, Paragon hopes to persuade them that this form of housing represents an important technological breakthrough and can offer quality life style at low cost.

ARE YOU SATISFIED WITH YOUR PRESENT INVOLVEMENT IN MOBILE HOME SALES?

Very definitely. Our joint venture arrangement with a subsidiary of Neonex International Limited, although operative only a matter of months, has already generated satisfactory profits. We are in the strongest possible position to make further inroads both in the manufacturing and in the marketing of mobile homes. This is so because we control the parks.

Although the sale of mobile homes is steadily increasing, the biggest problem that manufacturers and sales agencies have is to find locations on which mobile homes can be placed. The situation is critical. It is almost as if you would go to an automobile showroom, buy a car, and then have to ask the dealer where the car could be used . . . if highways were available. This is the sort of situation that presently confronts purchasers of mobile homes.

This condition will continue to worsen because there exists almost everywhere in Canada a ready, waiting and eager market to move into a quality park which is conveniently located. It is especially true in the Edmonton area where we will this year be starting a mobile home community of 840 sites, clearly one of the largest in North America.

As well, there are unlimited opportunities for mobile home parks and sales in the ''natural resource'' communities of the North.

HOW DO YOU SEE THE REAL ESTATE FUTURE FOR ALBERTA?

The spectacular growth of Alberta since the major discoveries of oil in 1948 is now legendary. Both Calgary and Edmonton have been running a neck-and-neck race as the fastest growing city in Canada since that time, and the Economic Council of Canada predicts a continuation of the trend through the '70's and '80's. Calgary, with a current population of 412,000 is expected to attain a population of 542,700 by 1978 and 704,600 by 1986. For Edmonton the story is much the same.

The Calgary Plan makes the following statement: '' Calgary is the fastest growing city in Canada. Each year on an average we have been adding the population of Red Deer once every two years. Indications are that this growth will continue, unabated, into the foreseeable future.''

Traditionally, Alberta cities were dedicated to home ownership and their pace of multi-family development lagged far behind Toronto, Montreal, Vancouver and even Winnipeg. This direction is now being reversed and the high cost of land and house construction coupled with the urban sprawl characteristic of growing cities, compelled public acceptance of higher density living. To underline this point, it is significant to note that in Calgary during 1971, 55% of all housing starts were multiple family. We are just starting to catch up with the rest of the country.

The graphs for the *Calgary Plan* show the types of dwelling units in 1968 and the changing direction of the 'mix' for the five year period of 1967-1972 and 1973 - 1978.

This change of direction will be further accelerated by a movement, at a rapid pace, into the Planned Unit Development — or the self-sufficient multiple housing community. Such a development is generally built on acreage anywhere from 10 to 20, up to 50 acres. It consists in the main of complexes of high-rise apartment buildings, medium-rise buildings and townhousing. It may have a complete and full shopping centre, or at least convenience services. It will offer the amenities, programs and physical facilities for recreational and social purposes that the smaller building cannot conceivably afford.

These comprehensive communities provide swimming pools, tennis courts, hospitality rooms, meeting rooms, health clubs, children's playgrounds, day care centres, and even schools — almost every conceivable type of amenity for better living which the private home owner, no matter how expensive the house in which he lives, cannot have for himself. This is not a dream; it is happening now in all major cities of the world and Paragon is making it happen in Calgary with Place Concorde, Hull Estates, The Hays Farm, McLaurin Village, and Westview Village.

WHAT DO YOU SEE FOR THE FUTURE OF YOUR INDUSTRY IN CANADA?

The increase in population is forcing great changes in the real estate industry and offers us both challenges and opportunities. The estimated growth in population over the next ten years in Canada is 420,000 persons annually for an increase of 4.2 million people.

It would be convenient to say that every community will be 20 percent larger by 1980, but we can't. People are moving between provinces and within provinces and cities. This migration is so significant that while many urban centres are experiencing unprecedented growth, others are actually shrinking. The main trend is moving toward an urban Canada. Consequently, by the late seventies, about 98 percent of housing construction will be urban.

The Economic Council of Canada estimated that in this current decade 2,435,000 new housing units will be required. This means that we need a

Glenmore Village Mall (top left) is a proposed comprehensive development containing an enclosed mall, shopping centre, nursing home, garden court apartments, and single family homes

Westview Village (left centre) and McLaurin Village (top right) are both Planned Unit Developments scheduled for construction this year

Hays Farm (bottom) is a 532-apartment Planned Unit Development. Phase I, 120 units, is nearing completion while a spring construction start is scheduled for the 108-unit Phase II.

production of about 230,000 a year for the first five years and 257,000 per year for each of the last five years of the seventies. Both are substantially above the annual production up to 1971 when new housing starts jumped to 231,000. Matching supply with demand, then, is a tall order. But of equal importance is the requirement to provide the commercial and shopping centre facilities, the factories and warehouses, the office buildings and the hotels, the social and recreational facilities, and the host of other services which are a vital part of the urban scene.

WHAT FORM WILL THIS HOUSING TAKE?

It is a question of simple arithmetic. We shall soon see a completely new generation of apartment dwellers. Twenty-five percent of our population is under the age of 21 years, and during the '70's, the number of households headed by people under 30 years of age will increase faster than those headed by people over 30 Further, with an increasing life span and affluence, we are rapidly creating an ever growing market in the "empty nester", the parents whose children have grown up and left home.

Former head of the Economic Council of Canada, Dr. Arthur J. R. Smith, underlined this point in a recent address in Vancouver when he said: "Unlike the fifties and sixties, when a very large proportion of Canada's population expansion occurred among younger children or teenagers, close to half the population growth in the seventies will be among young adults, the 25 to 30 age group."

And finally, a major trend is to be found in the specialty markets which seem to be the order of the day. Builders are developing golf course subdivisions and marina communities for the affluent, high density amenity-laden apartments for the swinging singles, carefree and luxurious apartments with built-in shopping, saunas, and services for the "empty-nesters", and condominiums on far-away islands or the sunny beaches of the Okanagan or the slopes of Lake Louise.

People are forcing change by their proclivities to travel or watch television and their desire to spend more discretionary income on golf and entirely recreational pursuits. They are forcing change even by growing older and more affluent.

All of this requires a new professionalism on the part of the real estate developer.

WHAT DO YOU MEAN BY REAL ESTATE "PROFESSIONALISM"?

More and more builders are finding it necessary these days to assemble larger parcels of land for mammoth complexes containing accommodation for residential, office, commercial, shopping centre, industrial and recreation uses.

As the size and degree of development enlarges, the people behind these developments are also changing.

As a result, many large companies have gone into real estate in the past few years. The field has attracted utilities, railroads, paper companies and others, which by the nature of their business, accumulate large real estate holdings and cash surpluses. The roster also includes companies involved with chemicals, autos, oil, and other business with no particular real estate tie.

These new arrivals are involved variously in massive redevelopment projects, factory built housing, new community and resort development, industrial and mobile home parks, and apartment and home building. Their impact on the volatile real estate industry is only beginning to be felt. By the end of this decade, they will likely transform it into a solidly based, well-financed, multi-national industry.

From the standpoint of the commercial real estate business, this involvement of large corporations and financial institutions is definitely a stabilizing force. The confidence of these companies in real estate equities is the finest advertising that the real estate industry can have today.

Already new conduits for investment capital into real estate are being built. Major corporate investment and equity trusts are two such conduits. Corporate involvement and the growth of trusts will be accelerated by the insurance companies' vote of confidence in real estate equities.

In a decade characterized by massive social and technological changes anyone who stands pat or fails to adapt to a continuous pattern of evolution and change must inevitably be left behind.

In a positive way, Paragon has demonstrated the professionalism required by the changing patterns of living. We have proved to be pace setters, whether from the standpoint of new concepts of physical planning, or the programming of contemporary life styles, or the creation and preservation of the environment.

In the important person-to-person area, we have found new ways and means of marketing, and tenant service concepts have been introduced that do not exist elsewhere in the industry.

These are the new benchmarks of professionalism.

WHAT IS PARAGON'S PROGRAM IN SPECIFIC TERMS FOR 1972, AND WHAT HAPPENS BEYOND THAT?

With the first quarter results not yet compiled, Paragon is already committed to a development program of $26,289,000 for 1972. At the same time, we have an adequate supply of serviced land which is either zoned or near-zoned. This will be developed in an orderly way as market conditions permit.

Paragon continued as one of Canada's leading mobile home park developers with completion and an active rent-up program at Chateau Estates, a 286 homesite project in Calgary (top), while the first phase of Edmonton's 840 homesite Evergreen Park project (bottom) will be started this year.

More important however, for 1972, for 1973, and for the years beyond is our determination to enlarge our involvement in the whole range of real estate activity on a national level,

DO YOU HAVE THE RESOURCES TO ACCOMPLISH DIVERSIFICATION ON SO WIDE A SCALE?

Though it may appear as an over-simplification, the only resources that really count are money and people. Money should not represent a serious problem. We have never enjoyed greater liquidity and creditability than we do at this time, and the resourcefulness and inventiveness which pervades at the senior management level permits us the flexibility to adapt to any acceptable format or technique for innovative financing. In simple terms, we have no difficulty in ''banking'' a project if the project is right.

Our challenge then is not one of money but of people. Any growing business, big or small, faces the task of gathering the right people for the right jobs. We have developed a team of senior management personnel who will be able to respond to the even more challenging times ahead in our industry. There are unlimited opportunities for personal advancement at Paragon and our present people know it.

HOW DIFFICULT IS IT TO FIND THE RIGHT PEOPLE?

Paragon was born out of the energy and imagination of two men. Today there are more than 300 employees. Generally, we have succeeded in attracting excellent people at all levels. Our current board of directors is of exceptional calibre; our management team is rapidly becoming a cohesive and truly formidable unit and our general staff has proven itself, particularly during the recent difficulties in the Canadian economy.

AREN'T YOU CONCERNED ABOUT THE COMPETITION FROM THE ''GIANTS'' IN THE EAST?

We have great respect for the professionalism shown by many of the larger firms in the East, especially in Toronto, and have enjoyed an excellent rapport, even a close friendship, with many of them. In some cases, there has been a free exchange of information between us, and Paragon has gained much from it. On the other hand, it was not surprising that they sent their people to view our operations in Calgary, and they no doubt learned much of value from us.

Having regard to a reputation which is now recognized throughout Canada, we are confident of our ability to get our fair share of any Canadian market.

PLACE CONCORDE HAS OFTEN BEEN DESCRIBED AS PARAGON'S ''FLAG SHIP''. WHY ARE YOU SELLING IT?

The answer is basically a simple one. Apart from a potential profit on the sale, it is management's view that the impressive cash proceeds resulting from the sale could be employed to generate a higher return from the many redevelopment opportunities currently available to us.

There is no room in a publicly owned company for sentimental attachment to bricks and mortar.

WHAT DOES PARAGON DO IN THE WAY OF COMMUNITY SERVICE?

The success of any enterprise today depends on winning acceptance and respect of the community in which it is located. Good corporate citizenship is not an idle phrase but an active philosophy which finds concrete expression in Paragon's support of community activities ranging from sports to the arts. We have donated works of art to Theatre Calgary, to the Southern Alberta Institute of Technology and to other worthy causes. We have sponsored a commercial league curling team and a Senior ''A'' Basketball Team. Our officers and other personnel have addressed service clubs and industry groups on various subjects ranging from economics to housing, and have appeared as speakers before students at high schools and at the University.

An elaborate program of community service and involvement is now being prepared. It will be offered freely and without expectation of direct commercial gain.

Diversification, a key word at Paragon, is illustrated by the three projects shown on this page. The Northpark Inn, a joint venture, (top) and the Majestic Inn (centre), a management contract, are hotel projects in Calgary. Plaza 2100 (bottom) is a recently completed neighborhood shopping centre in southwest Calgary.

Monarch Towers is one of the Company's mixed commercial and apartment developments.

financial statements

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET AS AT NOVEMBER 30, 1971

ASSETS

	1971	1970
CASH (note 3)	$ 611,436	$ 426,504
ACCOUNTS RECEIVABLE	1,228,052	342,905
PREPAID EXPENSES AND SUNDRY ASSETS	144,919	73,348
MORTGAGES AND AGREEMENTS FOR SALE	307,494	250,567
REVENUE-PRODUCING PROPERTIES DEVELOPED FOR SALE (notes 1 and 4)	3,596,241	2,940,281
PROPERTIES UNDER DEVELOPMENT (notes 1 and 4)	14,117,570	12,159,145
LAND ACQUIRED FOR DEVELOPMENT (note 4)	1,960,636	3,390,977
CONTRACTING AND OFFICE EQUIPMENT (at cost less accumulated depreciation 1971 — $152,650; 1970 — $116,140)	102,561	125,111
	$22,068,909	$19,708,838

SIGNED ON BEHALF OF THE BOARD

CHARLES G. SMITH
Director

NORMAN STEINBERG
Director

LIABILITIES

	1971	1970
BANK INDEBTEDNESS (note 5)	$ 254,503	$ 932,337
ACCOUNTS PAYABLE	1,693,234	1,905,278
MORTGAGES AND AGREEMENTS FOR SALE ON REVENUE-PRODUCING PROPERTIES (note 6)	2,970,326	2,636,785
MORTGAGES, AGREEMENTS FOR SALE AND BANK ADVANCES ON PROPERTIES UNDER DEVELOPMENT (note 6)	10,772,742	8,246,430
AGREEMENTS FOR SALE AND BANK ADVANCES ON LAND ACQUIRED FOR DEVELOPMENT (note 6)	1,453,276	1,785,041
8% SINKING FUND DEBENTURES SERIES A (note 7)	1,731,500	1,859,000
DEFERRED INCOME TAXES (note 8)	1,090,103	613,775
	19,965,684	17,978,646

SHAREHOLDERS' EQUITY

	1971	1970
CAPITAL STOCK		
Authorized — 2,600,000 common shares without nominal or par value		
Issued and fully paid — 947,942 shares	969,844	969,844
RETAINED EARNINGS	1,133,381	760,348
	2,103,225	1,730,192
	$22,068,909	$19,708,838

CONSOLIDATED STATEMENT OF EARNINGS FOR THE YEAR ENDED NOVEMBER 30, 1971

	1971	1970
REVENUE		
Sale of properties	$ 7,788,452	$ 5,707,608
Construction contracts	2,213,311	
Rental income	603,791	487,195
Consulting and contract management	256,173	69,659
Property management	41,626	54,106
Other	52,265	47,541
TOTAL REVENUE	10,955,618	6,366,109
OPERATING EXPENSES		
Cost of properties sold	6,639,184	4,872,458
Construction contracts	1,933,311	
Rental property	939,021	446,472
Administrative and general (notes 4 and 11)	411,003	383,993
	9,922,519	5,702,923
OPERATING EARNINGS BEFORE PROVISION FOR DEPRECIATION AND INCOME TAXES	1,033,099	663,186
PROVISION FOR DEPRECIATION	41,547	32,542
EARNINGS BEFORE PROVISION FOR INCOME TAXES	991,552	630,644
PROVISION FOR INCOME TAXES — DEFERRED (note 8)	476,328	307,735
NET EARNINGS FOR THE YEAR (note 1)	$ 515,224	$ 322,909
CASH FLOW PER SHARE*	$1.09	$0.70
EARNINGS PER SHARE	$0.54	$0.34

**Earnings per share before depreciation and deferred income taxes*

CONSOLIDATED STATEMENT OF RETAINED EARNINGS FOR THE YEAR ENDED NOVEMBER 30, 1971

	1971	1970
RETAINED EARNINGS — BEGINNING OF YEAR		
As previously reported	$ 722,411	$ 508,245
Adjustment of prior years earnings to give retroactive effect to the changes in accounting policies referred to in note 1	37,937	23,988
As restated	760,348	532,233
NET EARNINGS FOR THE YEAR	515,224	322,909
	1,275,572	855,142
DIVIDENDS	142,191	94,794
RETAINED EARNINGS — END OF YEAR	$1,133,381	$ 760,348

CONSOLIDATED STATEMENT OF SOURCE AND USE OF CASH
FOR THE YEAR ENDED NOVEMBER 30, 1971

	1971	1970
SOURCE OF CASH		
Proceeds from mortgages less repayments	$ 8,494,184	$ 7,663,404
Less: Mortgages assumed by purchasers	5,966,096	3,869,076
Increase in mortgage debt — net	2,528,088	3,794,328
Property sales	7,788,452	5,707,608
Construction revenue	2,213,311	
Consulting and contract management	256,173	69,659
Property management and other income	93,891	101,647
Increase in accounts payable		575,204
Increase in bank indebtedness		928,430
Decrease in accounts receivable		146,134
	12,879,915	11,323,010
USE OF CASH		
Increase in accounts receivable	885,147	
Administrative and general expenses	411,003	383,993
Rental property operations — net	335,230	(40,723)
Reduction in bank indebtedness	677,834	
Reduction of accounts payable	212,044	
Payment of dividends	142,191	94,794
Redemption of 8% debentures	127,500	123,000
Other	144,689	117,752
	2,935,638	678,816
CASH AVAILABLE FOR THE YEAR	$ 9,944,277	$10,644,194
INVESTED AS FOLLOWS		
Acquisition and development of properties	$ 7,826,034	$11,353,342
Construction costs	1,933,311	
Increase (decrease) in cash	184,932	(709,148)
	$ 9,944,277	$10,644,194

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED NOVEMBER 30, 1971

1. ACCOUNTING POLICIES

The accounting policies followed by the company are in accordance with the recommendations of the Canadian Institute of Public Real Estate Companies (CIPREC).

In the current year the company's scope of operations has expanded to include development and operations of major projects and it intends to increase its activity in this area. As a result, the company has altered its accounting treatment with regard to initial leasing costs, the accounting for completion of projects in progress, and the basis of calculating its provision for depreciation. The company continues to record the purchase of properties when the vendor fulfills the conditions of the offer to purchase, and to recognize the revenue from the sale of properties only when a transaction is closed and a substantial portion of the company's equity in the property is received.

The changes in accounting policy are based on recent recommendations by authoritative accounting bodies and property development institutes and are made with the concurrance of the company's auditors.

Under the company's sinking fund method of depreciation, buildings are estimated to have a useful life of 50 years and the annual depreciation charge is composed of two elements: one is a fixed amount derived from interest tables and the other is an interest amount calculated at the rate of 5% on the accumulated depreciation balance.

The above changes in accounting policy have been applied retroactively and accordingly comparative figures for the year ended November 30, 1970, have been restated.

As a result of the above changes in accounting policy, the Consolidated Statement of Earnings for the year ended November 30, 1971, shows net earnings of $252,000 greater than the amount which would have resulted under the previous accounting policies.

2. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the proportionate share of the assets, liabilities and earnings pertaining to the company's interest in joint ventures with others and also include the accounts of the subsidiary companies, all of which were non-operating at November 30, 1971.

3. CASH

Included in cash is an amount of $565,516 being funds held in trust by the company's solicitors at November 30, 1971. These funds represent proceeds of sales made in November, the release of which is pending performance of the routine conditions of closing.

4. PROPERTIES

	Revenue Producing Properties	Properties Under Development	Land Acquired For Development
Land	$ 318,490	$ 1,559,796	$ 1,960,636
Buildings	3,228,257		
Fixtures	97,734		
Construction in progress		12,557,774	
	3,644,481	14,117,570	1,960,636
Less: Accumulated depreciation	48,240		
	$3,596,241	$14,117,570	$1,960,636

a) Properties are carried at cost plus development expenses, including mortgage and loan interest, property taxes, deferred leasing costs, mortgage and legal fees and appropriate administrative expenses, less income earned during development.

b) One property under development is located on land held under a lease-hold interest containing a right to a remaining term of 98 years. The annual lease payment amounts to:

Year one	$12,000
Two succeeding years	$14,000 per annum
Thereafter	$15,000 per annum

c) With respect to Place Concorde, the company has entered into a financial arrangement granting a right to the lender to participate in the earnings of the project and an option to purchase a one-half interest thereof.

5. BANK INDEBTEDNESS

Bank indebtedness is secured by a general assignment of book debts and a specific assignment of certain mortgage proceeds.

6. MORTGAGES, AGREEMENTS FOR SALE AND BANK ADVANCES

	Revenue Producing Properties	Properties Under Development	Land Acquired For Development
Mortgages	$2,970,326	$10,772,742	$ 942,000
Agreements for sale			373,776
Bank advances			137,500
	$2,970,326	$10,772,742	$1,453,276

Duplicate Certificates of Title for certain properties have been lodged with the bank as security for bank advances.

As construction progresses on properties under development, an additional amount of $1,581,904 will be received on mortgages. The cost to complete construction in progress on properties under development is estimated at $570,000.

Interest rates range from 7% to 10⅞%, the weighted average rate being 9.3%. The repayment schedule of bank advances, agreements for sale and mortgages is as follows:

Year ending November 30, 1972	$ 218,999
Year ending November 30, 1973	226,527
Year ending November 30, 1974	202,609
Year ending November 30, 1975	110,111
Year ending November 30, 1976	1,150,578
Subsequent to November 30, 1976	13,884,933
	15,793,757
Mortgages on properties sold subsequent to the year-end	984,491
	$16,778,248

7. 8% SINKING FUND DEBENTURES — SERIES A

The Series A debentures mature on February 15, 1979, and are redeemable otherwise than out of sinking fund moneys at the company's option on thirty days notice at 102% of principal if redeemed on or before February 15, 1977, and 100% of principal if redeemed thereafter and prior to maturity in either case plus accrued interest to the date specified for redemption.

Under the terms of the trust indenture, the company is required to establish a sinking fund in such amounts as shall be sufficient to retire on February 15 in each of the following years the principal amount of the Series A debentures set out opposite each such year:

1972	$ 150,000
1973	165,000
1974	180,000
1975	195,000
1976	210,000
1977	225,000
1978	245,000

The above sinking fund payments, together with the payment of $490,000 at maturity, will be sufficient to retire the Series A debentures in full.

During the year and subsequent to the year-end, the company redeemed $150,000 principal amount of Series A debentures, thereby fulfilling the 1972 sinking fund requirements.

8. INCOME TAXES

The company follows the policy of claiming for income taxes, allowable expenses and depreciation in amounts greater than the corresponding amounts charged in the company's accounts. This results in a deferment to future years of income taxes otherwise payable.

9. GUARANTEES

The company has guaranteed to the purchasers of certain revenue-producing properties income aggregating $663,860 over a three-year period.

10. CONTINGENT LIABILITIES

The company is contingently liable to a maximum of $1,249,882 with respect to those portions of mortgages on joint-venture undertakings that are payable by the company's co-venturers. The value of portions of the joint-venture undertakings owned by the company's co-venturers exceeds the amount for which the company is contingently liable.

11. REMUNERATION TO DIRECTORS AND SENIOR OFFICERS

In 1971, fees paid to directors aggregated $9,500 (1970 - $4,016) and direct remuneration of senior officers was $100,540 (1970 - $104,605). There were three senior officers who received $3,900 (1970 - $2,600) as directors.

12. SUBSEQUENT EVENTS

Subsequent to the year-end, the company agreed in principle to the sale of Place Concorde. This sale will require the lender, referred to in note 4 (c), either: to approve the sale or to exercise its right of refusal and purchase the property on the same terms and conditions set forth in the third-party offer.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Paragon Properties Limited and its subsidiaries as at November 30, 1971, and the consolidated statements of earnings, retained earnings and source and use of cash for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at November 30, 1971, and the results of their operations and the source and use of their cash for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to the changes, with which we concur, and which are referred to in note 1 to the consolidated financial statements.

McDonald, Currie & Co.

McDONALD, CURRIE & CO.
CHARTERED ACCOUNTANTS

Calgary, Alberta
February 17, 1972

DIRECTORS

The Hon. Colin Campbell McLaurin, Q.C., LL.D., Chairman of the Board, retired in 1968 as Chief Justice of the Trial Division of the Supreme Court of Alberta. Mr. McLaurin, Chancellor Emeritus of the University of Calgary, is associated with the legal firm of Howard, Moore, Dixon, Mackie & Forsyth.

Charles Gerald Smith, Q.C., President of Paragon Properties Limited, is a member of the bars of Manitoba and Alberta. Prior to moving to Calgary in 1957 he practised law with the Winnipeg firms of Harvey & Smith and Smith & Diamond and was principal shareholder and president of the development firm of Commercial Construction (Calgary) Limited. He is a member of a number of civic committees, and national and international groups concerned with urban development and planning. Mr. Smith was appointed a Queen's Counsel in 1969.

Norman Steinberg, Executive Vice-President of Paragon Properties Limited, attended the Faculty of Arts at the University of Alberta and was later enrolled at the University of Toronto School of Architecture before entering business as an executive of a regional furniture company. Prior to joining Paragon, he was active in real estate and development fields as president of Excelsior Investment Corporation Ltd.

The Hon. E. Davie Fulton, P.C., Q.C., LL.D., of Vancouver, is General Counsel for the Company's operations in British Columbia. Mr. Fulton served as Member of Parliament for Kamloops from 1945 to 1963 and 1965 to 1968. His public service included federal appointments as Minister of Justice and Attorney-General from 1957 to 1962, and as Minister of Public Works from 1962 to 1963. Mr. Fulton is a partner in the legal firm of Fulton, Cumming, Bird, Richards of Vancouver. He is a director of Crestwood Kitchens Limited, Eddy Match Company Limited, the Merit Insurance Company, and Guaranty Trust Co. of Canada.

The Hon. Harry William Hays, P.C., of Calgary, was appointed to the Senate of Canada in 1966. Senator Hays served as Mayor of Calgary from 1959 to 1963 after which he was elected Member of Parliament for Calgary South and was named Federal Minister of Agriculture. Senator Hays is an honorary president and past director of the Calgary Exhibition and Stampede Board. As one of Canada's leading livestock breeders, he has served on the executives of the Canadian Swine Breeders' Association, the Alberta Cattle and Sheep Breeders' Association and the Southern Egg and Poultry Producers' Association. He is also a director of Canada Permanent Mortgage Corporation and Canada Permanent Trust Company.

Robert K. McConnell is President of McConnell and Company Limited, Investment Dealers, Toronto, and of Barymin Explorations Limited. He is a director of Canadian Vickers Limited, the Metropolitan Trust Company, Canada Week, and the Financial Life Assurance Company.

G. Lyall Roper of Edmonton, is President of Roper Holdings Ltd., Commercial Printers (Calgary) Ltd., and Plastic Platemakers Ltd. Until 1970, he was President and General Manager of Commercial Printers Ltd. Mr. Roper is a past President of the Edmonton Chamber of Commerce, Chairman of the United Community Fund, and member of the Board of Governors, University of Alberta. He is currently serving as a director of the Edmonton Exhibition Association Limited.

OFFICERS

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President

NORMAN STEINBERG
Executive Vice-President

J. BRIAN RENTON, P.ENG.
Vice-President, Construction & Development

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Calgary, Alberta